

SUMMARY ANALYSIS OF AMENDED BILL

Author: Ridley-Thomas, et al. Analyst: Rachel Coco Bill Number: AB 168
 Related Bills: See Prior Analysis Telephone: 845-4328 Amended Date: May 26, 2005
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: California Tax Expenditure Accountability Act/Tax Expenditure Reports

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED
March 10, 2005, STILL APPLIES.

X OTHER – See comments below.

SUMMARY

This bill would require several state agencies to provide reports on tax expenditures.

SUMMARY OF AMENDMENTS

The May 26, 2005, amendments would require the tax expenditure report compiled by the Department of Finance (DOF) to include specific information about each tax expenditure. The amendments would also add two coauthors.

As a result of the amendments, the “This Bill” discussion contained in the prior analysis has been revised. The remainder of the department’s analysis of the bill as amended March 10, 2005, still applies.

POSITION

Support.

On March 29, 2005, the Franchise Tax Board (FTB) voted 2-0, with the representative from DOF abstaining, to support the provisions of this bill, as amended March 10, 2005.

Board Position:

<input checked="" type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input type="checkbox"/> PENDING

Department Director

Date

Brian Putler

6/14/05

THIS BILL

This bill would repeal an existing provision of law that requires DOF to provide an annual report to the Legislature on tax expenditures.

This bill would require FTB and the Board of Equalization (BOE) to provide reports on tax expenditures to the Legislative Analysts Office (LAO), DOF, and the Legislature. The reports would be based on static revenue analysis and would address tax expenditures for the taxes administered by each department respectively.

The reports would include estimated revenue losses attributable to each tax expenditure that had a revenue loss in excess of \$10 million in the prior fiscal year. The reports would be required from each department on or before November 15, 2006, and on or before November 15th every year thereafter.

This bill would require DOF to provide a report on tax expenditures to LAO and the Legislature. The report would be based on a dynamic revenue analysis and include a comparison of the reports submitted by FTB and BOE. The report would only include tax expenditures that had a revenue loss in excess of \$10 million and are designated for the report by the Senate and Assembly Revenue and Taxation Committees. The report would be required on or before February 1, 2007, and on or before January 15th every year thereafter.

DOF would be required to include information in the report, based on information provided by FTB or BOE, regarding tax expenditures that are separately identified on returns or claims, to the extent feasible. Specifically:

- the number of tax returns or taxpayers affected by the tax expenditure, and
- the distribution of each tax expenditure, as follows:
 - for expenditures available to businesses, by size of the business or industry, by size of total receipts, and by type of business or industry, and
 - for expenditures under the personal income tax law, by adjusted gross income brackets.

This bill would require LAO, on or before March 1, 2007, and on or before every March 1st thereafter, to review the tax expenditure reports provided by FTB, BOE, and DOF and make recommendations to the legislature regarding which tax expenditures should be modified or repealed.

This bill would define “tax expenditures” as a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by state law.

This bill would define “static revenue analysis” as the historical method used by BOE and FTB for evaluating tax expenditures that takes into account only the most direct economic responses to tax expenditures.

This bill would define “dynamic revenue analysis” as the historical method used by DOF for evaluating tax expenditures based on assumptions that estimate the probable behavioral responses of taxpayers, businesses, and other citizens to those tax expenditures and that includes a statement identifying those assumptions.

LEGISLATIVE STAFF CONTACT

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